

# Periodic Review of Accident Towing and Storage Fees

Dated 26 March 2013





Submission made on behalf of VACC to:

Tow Truck Review

Essential Services Commission

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## **Introduction**

VACC welcomes the opportunity to contribute to the Essential Services Commission (ESC) Periodic Review of Accident Towing & Storage Fees. Our submission aims to enhance the awareness of issues impacting on towing operators and to ensure the continued health of the regulated Accident Allocation System which we believe has many benefits to the community and Industry.

VACC has for many years supported our members by representing them in submissions regarding towing regulations and fees. There is no other body that represents the interests of towing operator in Victoria. The Towing Operators Division (TOD) was formed in 1958 and over the years its members have been responsible for many of the improvements made to the supply of towing services to the Victorian public. The VACC and its Towing Operators were the architects of the Accident Allocation system that was introduced in 1986 that has become a stable platform for the successful regulation of towing and towing fees in Victoria. The incidence of complaint regarding the towing allocation system and the fees is very low and the system is highly regarded by Industry, Government and by VicRoads who regulate the Accident Allocation System.

VACC appreciates the Essential Services Commission consultation that has occurred so far and encourages the Commission to continue this vital communication so that it may fully understand the nature of the towing industry and the work carried out by licensed towing operators.

Proper consultation with small businesses via their business association, can quickly ascertain the views of small businesses when new legislation or regulations are proposed. Dissent by small business generally arises from poor consultation, ill-considered regulation or hastily rearranged policy changes.

## **About VACC**

Formed in 1918, VACC is a federally registered association of employers representing over 5,500 members in the retail automotive industry in Victoria and Tasmania.

Our members are small business owners operating family owned businesses in a highly competitive retail automotive sales and servicing market.

Retail automotive industry businesses in Victoria employ approximately 50,000 people; turn over \$35 billion in the sales and servicing of 4.5 million registered motor vehicles.

VACC aims to enhance and promote the legitimate business interests of members in a fair marketplace.

VACC provides a range of services to small business owners, including:



- small business guidance
- training and skills development
- group apprentice training (over 500 people employed)
- industrial relations
- human resources
- technical information
- consumer advisory services
- marketing
- information technology services
- OH&S advice and
- environment audits

VACC consists of 15 divisions representing differing automotive industry activities. Each division has a Chairman and Committee of industry participants. Small business policy matters are regular agenda items at committee meetings.

#### VACC Divisions

- Automotive Electricians
- Automobile Repairers
- Auto recyclers
- Body Repair
- Commercial vehicle body makers
- Commercial vehicles sales
- Engine Reconditioners
- Farm Machinery
- New car
- Radiator Repairers
- Service Station and Convenience stores
- Motorcycle Dealers
- Used car
- Tyre Dealers
- Towing Operators Division (TOD)



## **VACC submission**

VACC is pleased on behalf of the Towing Operators Division (TOD) to submit to the Periodic Review of Accident Towing and Storage Fees 2013.

VACC members all agree that the Accident Allocation System used in Victoria is world's best practice and the envy of other states and countries. However, like all systems it is not perfect and VACC will continue to work with VicRoads to adjust the system as members report on issues that cause problems and create delays.

On 7 March 2013, representatives from the VACC and members of the TOD met with ESC as part of ESC's stakeholder meetings. This was a useful start to the consultation process directly with licensed towing operators that are regulated.

During the research required for the development of this submission VACC has consulted widely with our members, surveyed members regarding typical towing business costs and typical towing jobs. Our submission is informed directly by our communications with towing operators.

## **Submission scope**

VACC has responded to the questions asked and issues raised in the ESC discussion paper released in February 2013

VACC also commissioned Pitcher Partners Consulting Pty Ltd - Accountants, Auditors and Advisors to analyse and report on data provided by members in relation to a bench marking methodology (see Appendix One – Pitcher Partners).

Our submission also examines factors such as, costs, environment, salvage and second tows.

## **VACC recommendations:**

The recommendations drawn from the independent Pitcher Partners report and from VACC's discussions with members are as follows:

1. That fees for allocated towing should be increased based on the benchmark data provided in the Pitcher Partners Report.

2. That a Portion of the base fee should be indexed by Average Weekly Ordinary Time Earnings so that indexation more appropriately tracks cost movements over the longer term.
3. That the Current arrangement for salvage charges should remain and salvage charges should continue to be required to be reasonable.
4. That second tow fees should not be prescribed or regulated. A competitive market exists in the deregulated trade towing industry.
5. That when the period of stakeholder consultation commences VACC encourages the ESC to meet with VACC and our towing operators before a final report is made on regulated towing fees.

## Background

To broadly set the scene that towing operators work in, VACC offers the following commentary and information obtained from VACC members:

### Expenses of running a towing business

The single tow operator's figures show the expenses involved and clearly a new business starting out would find it very difficult indeed to trade profitably, if that business only relied on smash tows for its survival. The following expenses are provided by a VACC member on the fringe of the allocation area, obviously expenses for operators in the CBD of Melbourne are significantly higher.

### Expenses – Table one

|  |           |
|--|-----------|
| Value/ of tow licence in metropolitan Melbourne (current market price) | \$400,000 |
| Cost of a new tow truck  | \$150,000 |
| Accounting fees  | \$825     |
| Legal fees   | \$285     |
| Bank Charges   | \$490     |
| Merchant fees  | \$83      |
| Subscriptions  | \$2,675   |
| Office Supplies  | \$791     |
| Freight Paid   | \$1,453   |
| Permits & licences   | \$2,135   |





|  |                  |
|--|------------------|
| Tolls                                  | \$235            |
| Insurance                              | \$1,594          |
| Diesel                                 | \$9,440          |
| Motor Vehicle repairs & maintenance    | \$4,806          |
| Motor Vehicle registration & insurance | \$7,030          |
| Advertising                            | \$5,061          |
| Cleaning                               | \$387            |
| Postage                                | \$45             |
| Printing                               | \$275            |
| Rent                                   | \$12,000         |
| Electricity                            | \$405            |
| Gas                                    | \$821            |
| Telephone                              | \$6,300          |
| Water                                  | \$201            |
| Rates                                  | \$1,497          |
| Wages                                  | \$58,897         |
| Building repair & maintenance          | \$2,376          |
| <b>Total</b>                           | <b>\$120,107</b> |

Also see Appendix Two – Profit and Loss Statement – Tow Company

**Survey of towing charges – Table two**

VACC reviewed 48 invoices from TOD members’, showing regulated tow, after hour’s surcharge, storage fees, secondary tow and salvage, kilometres travelled and etag.

The average of all these are:

| Salvage  | Extra k’s | Extra k’s (fees) | Second Tow | Storage (days) | Storage (fees) |
|----------|-----------|------------------|------------|----------------|----------------|
| 16 (48)  | 20 (48)   | 20 (48)          | 29 (48)    | 20 (48)        | 20 (48)        |
| \$133.75 | 12.95     | \$40.15          | \$131.88   | 4.75           | \$70.71        |

**Averages of towing combinations - Table three**

| Days         | Basic tow & storage | Basic tow with storage & salvage | Basic tow with afterhours fee, second tow & storage |
|--------------|---------------------|----------------------------------|---|
| 4.75         | \$196.90 + \$70.71  | \$196.90 + \$133.75 + \$70.71    | \$264.10 + \$70.71 – \$131.88*                      |
| <b>Total</b> | \$267.61            | \$401.36                         | \$202.93  |
|              |                     |                                  |   |

\*Not a regulated fee

### **Average Allocations per licence per month**

Based on VicRoads figures the average allocation per towing licence in the allocation area per month is 8.43 (December 2012) tows.

1. 8.43 = \$2255.95 per month at the base rate + 4.75 days storage  
Or
2. 8.43 = \$3383.46 per month at the base rate + salvage + 4.75 days storage  
Or
3. 8.43 = \$1710.70 per month at base rate + after hours/second tow + 4.75 days storage.

There are a multiple varieties of towing combinations, but looking at the income for a single licenced towing operator per year equates to \$2255.95 (1.) per month which is \$27,071.4 per year, \$3383.46 (2.) per month which also adds up to \$40,601 per year from smash tow work. Either way or any combination, the income from Smash Towing is not enough to sustain a towing operation.

The figure above would increase, depending on how many licences are held, but the costs associated with having more licences will increase accordingly. However, it is obvious that the income from an average of eight allocated tows per month is insufficient to meet expenses.

### **Storage Fees**

Currently the storage fee for a vehicle under cover, in a secured location, is \$15.10 per 24 hours. Businesses that offer parking in the CBD charge \$68.00 for casual parking up to 4 hours and \$16.00 for 8-10 hours if you park during the early bird period. The rate of storage charged by towing operators is comparatively low. An increase in the regulated fee would be appropriate.

### **Working environment**

During 2012 towing operators were required to be on call 24 hours a day in all conditions. Below is a sample of the working conditions experienced throughout 2012.

#### **BOM Statistics**

- Coldest day 2012 – 3 degrees
- Hottest day 2012 - 41.1 degrees
- Rain days in allocation area - 170 days

## Working Conditions

Towing operators and their drivers attend accident scenes and this can take its toll. Some of the tasks expected of a tow operator at crash scenes are:

- Assisting emergency services at the accident scene
- Directing at accident scenes
- Cleaning accident scenes
- Clearing accident scenes.

Towing operators and drivers witness a variety of difficult situations, and counselling is not always offered.

## TAC Statistics – Table four

Fatalities in allocation area 2012

| Time of day   | Fatalities |
|---------------|------------|
| 00:00 - 01:59 | 11         |
| 02:00 - 03:59 | 6          |
| 04:00 - 05:59 | 6          |
| 06:00 - 07:59 | 16         |
| 08:00 - 09:59 | 8          |
| 10:00 - 11:59 | 12         |
| 12:00 - 13:59 | 13         |
| 14:00 - 15:59 | 15         |
| 16:00 - 17:59 | 11         |
| 18:00 - 19:59 | 6          |
| 20:00 - 21:59 | 16         |
| 22:00 - 23:59 | 7          |
| <b>Total</b>  | <b>127</b> |

Serious injuries requiring hospitalisation in allocation area 2012

| Time of day   | Serious Injuries |
|---------------|------------------|
| 00:00 - 05:59 | 165              |
| 06:00 - 11:59 | 639              |
| 12:00 - 17:59 | 910              |
| 18:00 - 23:59 | 541              |
| Unknown       | 152              |
| <b>Total</b>  | <b>2407</b>      |

As horrible as these statistics appear, it shows that towing operators and their drivers have to attend scenes that most people would not witness in their lifetime, at all hours of the day and in all weather conditions.

Being a tow operator is a very difficult and stressful job and they have to be available 24 hours a day and travel in any weather and traffic conditions. Without tow operators in Melbourne, Melbourne's traffic would come to a standstill.

### **Setting the level of fees and charges**

VACC recommends that the ESC adopt a benchmark approach in line with the Pitcher Partners report (see Appendix One).

### **The Annual adjustment mechanism**

VACC supports the annual adjustment mechanism. In the past when fees were not annually adjusted, towing operators were in effect operating in arrears, chasing increases for work that had already been performed. Where a fee is fully regulated, it must keep up with increases in industry costs, any time lag in an increase penalises operators.

There is no evidence to support a decrease in the regulated costs. Increased fee include: towing operator costs, wages, insurance, license fees, electricity, telephone and work care (see Appendix Two for a typical set of costs supplied by a towing operator).

### **The regulation of salvage charges**

At a stakeholder meeting held on March 7, VACC members presented to the ESC, a number of images showing the different types of salvage scenarios. It was highlighted by the members, that Salvage can be a very difficult process, depending on weather, environment, time of day or night and traffic conditions at the accident scene.

VACC's position on salvage is that it should not be prescribed, as there are too many variations, and that a reasonable charge, verified with images, should be continued as the preferred methodology.

### **Issues relating to Secondary Towing**

A Secondary tow fee should not be prescribed, as market forces and competition among operators keep secondary tow fees at reasonable levels. A Secondary tow is a trade tow and as trade tows were de-regulated a number of years ago, any business with a suitable truck can complete secondary tows. These unregulated and unlicensed businesses do not

have an obligation to pay the considerable amount of money to obtain a towing licence and as a consequence, have an unfair market advantage over licensed operators. This adds pressure to licensed tow operators, who must keep their trucks moving to remain viable. Secondary tows, in most situations, are as a result of a smash tow completed outside normal business hours. Running a business 24 hours a day, as all accident allocation towing businesses are required to do adds considerable costs which is more than double that of operating in normal business hours. The VACC also understands why the insurance industry does not operate their accessing centres or their preferred repairers on a 24 hours basis, as this is expensive.

A secondary tow is as a result of a tow back to a TOD member's depot (operates 24 hours a day) and is normally completed after hours. Once towed, the vehicle is stored securely and then towed (second tow) to the insurers assessing centre or preferred smash repairer, cheaply and cost effectively at a time convenient to the insurance industry.

### **Out of Storage Fees**

Towing Operators do have a cost to move vehicles around their depot. Vehicles can be blocked in, depending on how long they have been stored. A fork lift or tow truck is required to move these vehicles around, so that the vehicle being requested can be accessed for collection. VACC submits that it is reasonable for towing operators to charge additional fees for movement of vehicles out of storage. Both the base towing fee and the storage fee, do not cover this work.

### **Coverage of the base fee**

Towing operators do not agree with the VicRoads definition as posted on their website, this matter is contentious and requires further discussion. This issue was revised by the ESC in 2010 and we note that the Act has not been amended.

VACC does not agree that the base fee covers all possible costs and outgoings concerned or connected to the provision of an accident allocated tow. It would be unreasonable to expect that all costs are included and that some variable costs will not be charged.

### **Treatment of non - Commercial tows**

TOD members reported that at least 10% of all tows are not paid for by the person receiving the tow. This could be for a variety of reasons:

- Police direct the tow operator to tow a vehicle
- The customer is uninsured
- The value of the vehicle is less than the cost of the tow
- The customer chooses not to retrieve their vehicle

Tow operators try to recover their costs of the tow and storage by selling the wrecks as uncollected goods, to waste metal recyclers. Currently the price per tonne is around \$165.00. The steps taken to sell an uncollected vehicle to recover costs using the Uncollected Goods Act, is a process that is time consuming and costly. As an example of the nature of this problem, we have included an example supplied by a towing operator (see Appendix Three).

The vehicle concerned in Appendix three, remains in the possession of the towing operator and the invoice is unpaid. The incidence of non-payment is relatively high. The accident allocation system requires a towing operator allocated a job, to pick up the vehicle, regardless of the likelihood of being paid.

VACC agrees that the sale of uncollected goods is an appropriate mechanism; however, in most cases, it will not recover the cost of towing. The level of non-payment should be further recognised by an increase in the base fee.

### **Opportunities for Innovation**

VACC submits that any changes to the regulatory approach that are proposed, must be discussed in detail with licensed towing operators, so those that are regulated may have input and their views are carefully considered.

**Question 1**

How have the costs of accident towing operators changed since the last review?

- a. Have cost changes been markedly different to the CPI-X annual fee variation?

*Answer: VACC member costs have increased by amounts greater than CPI due to wage increases and business cost increases. Business costs have risen by approximately 5%*

**Question 2**

Do current fees and charges need to be reset, or are they at an appropriate level?

- a. What indicators and information should the commission consider in determining whether a reset is required, and the direction of that reset?
- b. Should accident towing fees decrease?

*Answer: The benchmark of rates charged in non-regulated accident towing should be considered. The regulated fees should be increased not decreased. The rate for after-hours work should be recalculated and increased.*

**Question 3**

Should a benchmarking approach be used by the Commission in resetting fees?

- a. If so, what services or industries should accident towing fees and charges be benchmarked against?
- b. How significant are differences between accident towing and these benchmarks?

*Answer: Benchmarking should be used and comparisons made to charges made in unregulated accident towing and other regulated accident towing. The differences are likely to be significant and reflect the low rate applied in the Victorian Accident Allocation Area (see Pitcher Partners report).*

**Question 4**

Are there other methodologies for resetting fees that the Commission should be considering?

*Answer: VACC is willing to discuss other methodologies.*

**Question 5**

Has the annual adjustment mechanism been effective?

- a. Should it also provide for price decreases so that consumers benefit from cost decreases?

*Answer: In our experience costs of operating a towing business have not decreased and the number of allocations is variable therefore the regulated fee should not be decreased. VACC supports annual adjustments.*

**Question 6**

Is the current cost index (CPI – Melbourne, Transport) the appropriate cost index to use?

*Answer: This question requires further clarification as to what would be proposed as an alternative.*

**Question 7**

What are the potential sources of productivity increases in the industry?

*Answer: Introduce double picks ups at accident scenes, so that one truck is permitted to tow two damaged vehicles where appropriate.*

**Question 8**

What rates for basic salvage have been applied by industry operators over recent years?

- a. Have these been reasonable?
- b. Is there sufficient evidence of appropriate charging under the new requirements?

*Answer: Salvage rates are set at reasonable levels. The great variety in the salvage tasks must be considered, almost all salvage jobs are different and require carefully applied skill and experience.*

**Question 9**

Should a fee for basic salvage be prescribed?

*Answer: No.*

**Question 10**

If basic salvage charges are regulated, what is the appropriate charge or methodology for establishing the level of the charge?

*Answer: Salvage should not be prescribed.*

**Question 11**

What rates have been charged for secondary tows over recent years, and what was the nature of the secondary tow?

*Answer: Secondary tows are subject to competition by unregulated operators, many different rates apply consistent with skill, care, attention and responsible towing practices.*



**Question 12**

Should a fee for secondary towing be prescribed?

- a. Alternatively, should secondary towing (or certain types of secondary towing) be included in the base towing fee, or are there non-price mechanisms to ensure reasonableness in secondary towing fees and practices?

*Answer: The secondary tow market is unregulated and therefore should not be included in the base fee. To do so would be to introduce one fee for two tows.*

**Question 13**

To what extent and under what circumstances are out of storage fees being charged to vehicle owners or their insurers?

- a. What rates have been charged for out of storage tows over recent years?

*Answer: VACC is not able to answer.*

**Question 14**

Should out of storage tows be part of the accident towing service (and therefore be covered by the existing base towing fee), or be considered secondary towing?

*Answer: Movements within the yard should be charged separately.*

**Question 15**

Should a fee for out of storage towing be prescribed?

*Answer: No.*

**Question 16**

Should the Act be amended to clearly specify the services that are included in the base towing fee?

*Answer: This matter requires further discussion as VicRoads appear to have provided a definition with which others do not agree.*

**Question 17**

To what extent are non-commercial tows undertaken by operators?

- a. To what extent are they undertaken because owners do not claim their vehicle from the depot, and to what extent are non-commercial tows of abandoned vehicles undertaken at the direction of police or other authorities?

*Answer: Up to 10 per cent of tows remain unpaid or uncollected.*

**Question 18**

How should the costs of non-commercial towing be recovered?

*Answer: It should be recognised that the towing services of damaged vehicles are not a purchase that customers make willingly and some customer will avoid payment. Therefore the basic fee should be increased to compensate.*

**Question 19**

Does the cost of non-commercial tows fall evenly across all depots/operators?

*Answer: There does not appear to be any regional or geographic variation.*

**Question 20**

Is outcomes-based regulation an approach that should be considered for accident towing?

*Answer: This issue needs clarification and if a change is proposed then it must be discussed with licensed towing operators.*

**Question 21**

If outcomes-based regulation is applied, what are the key outcomes that should be required of accident towing operators?

*Answer: More information is needed before towing operators can comment.*



## **Appendix One**

### **Pitcher Partners**

Report to assist the VACC with their Submission to the Essential Services Commission Issues paper – “Periodic Review of Accident Towing and Storage Fees’

## **Appendix Two**

Profit and Loss Statement – Tow Company

## **Appendix Three**

Unpaid Tow



**PITCHER PARTNERS**  
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*Pitcher the Difference*

**Report to assist the VACC with their  
Submission to the Essential Services  
Commission Issues Paper – “Periodic Review  
of Accident Towing and Storage Fees”**

March 2013

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 an independent member of  
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INTERNATIONAL

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## 1. Executive Summary

Key summary points:

- Inter-jurisdictional and market based benchmarking outside the Controlled Area indicate that the regulated base fee is too low.
- The indexation methodology could be improved to enable a portion of the base fee to track alongside a relevant labour index.

We therefore recommend:

- That fees for allocated towing be increased based on the benchmark data.
- That a portion of the base fee be indexed by Average Weekly Ordinary time earnings so that indexation more appropriately tracks cost movements over the longer term.

## 2. Background

In February 2013 the Essential Services Commission (“the Commission”) released an Issues Paper entitled “Periodic Review of Accident Towing and Storage Fees”. The Commission has invited submissions from stakeholders. The Victorian Automobile Chamber of Commerce (“VACC”) represents the towing industry in Victoria.

VACC has requested Pitcher Partners to provide a limited review that compares the:

- Melbourne regulated Base Towing and Storage fees and charges to the New South Wales, South Australian and Queensland regulated fees and charges; (Refer to Section 3 below)
- Melbourne regulated Base Towing fee to a limited sample of data derived from towing operations for greater Melbourne and major regional Victorian cities that fall outside the Controlled area; (Refer to Section 4 below)
- Impact of the current indexation methodology with an indexation methodology that applies both a CPI and a Labour index; (Refer to Section 5 below).

The Commission’s Issues Paper notes that stakeholder submissions will;

- Provide comments for the Commission to consider,
- Provide the basis for subsequent meetings with stakeholders and

- Will help to inform a draft report to the Minister.

Prior to the draft report stakeholders will have another opportunity to make further submissions regarding the Commission's draft report to the Minister.

The following aspects of the Commission report are noted for the context of reading the following sections:

- The purpose of the Commission's report is to consider a methodology to apply in setting the relevant fees and charges for the regulated services. These two methodologies are:
  - Cost of service regulation that would involve a survey of towing operators' costs.
  - Benchmarking.
- The Commission's preliminary view is that a cost of service approach is unlikely to be the best approach and subject to consideration of stakeholder's views, the Commission intends to explore the application of benchmarking in assessing accident towing fees and charges.

Based upon this context, our report provides benchmarking information for the VACC to consider in their submission to the Commission's report.

### 3. Jurisdictional Benchmarking

We have conducted an exercise that compares the Melbourne regulated Base Towing fee to the regulated base towing fees in New South Wales, South Australia and Queensland. In order to compare between jurisdictions we have assumed that:

- The base fee relates to a standard vehicle tow.
- The vehicle is required to be stored for 3 days; fees stated below are inclusive of applicable storage charges for the 3 day period.
- The fee includes GST.
- All fees are current as at 1 July 2012.
- When comparing another jurisdiction to Melbourne's fees, we have used the minimum number of kilometres relevant to that jurisdiction's base fee. This is done to derive a base fee that is able to be compared across jurisdictions.
- When comparing Melbourne to another jurisdiction's fees we have used the number of kilometres included in the Melbourne's Base Fee (Up to 8 kilometres). This is done to derive a base fee from other jurisdictions that is able to be compared against Melbourne's Base Fee.

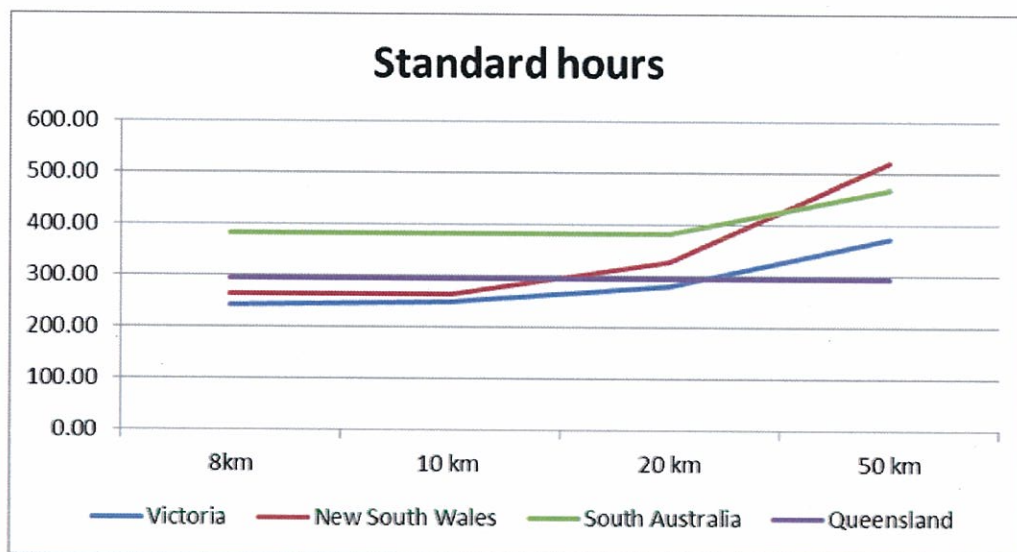
We note the following:

In comparing New South Wales, South Australia and Queensland to the Melbourne Base Fee:

- i. New South Wales, based on a towing distance of 10 km, has a fee of \$264.00 and is 25% higher than Melbourne that has a comparative fee of \$248.40.
- ii. South Australia, based on a towing distance of 20 km, has a fee of \$383.00 and is 61% higher than Melbourne that has a comparative fee of \$279.40.
- iii. Queensland, based on a towing distance of 50 km, has a fee of \$293.80 and is 21% lower than Melbourne that has a comparative fee of \$372.40.

As Graph 1 highlights, for all distances up to 50 kilometres, Melbourne’s Base Fee is significantly less than South Australia. As the towing distance increases, Melbourne’s base fee falls progressively behind that of New South Wales. And in comparison to Queensland, it is only after 24 kilometres that the Base Fee in Melbourne becomes more than the Queensland base fee.

*Graph 1: Comparison of base fees – Standard Hours*



When considering Melbourne’s Base Fee (\$242.20) to New South Wales, South Australia and Queensland, assuming a distance of 8 kilometres for comparative purposes:

- i. The New South Wales base fee is \$264.00 or 9% higher than Melbourne.
- ii. The South Australian base fee is \$383.00 or 58% higher than Melbourne.
- iii. The Queensland base fee is \$293.80 or 21% higher than Melbourne.

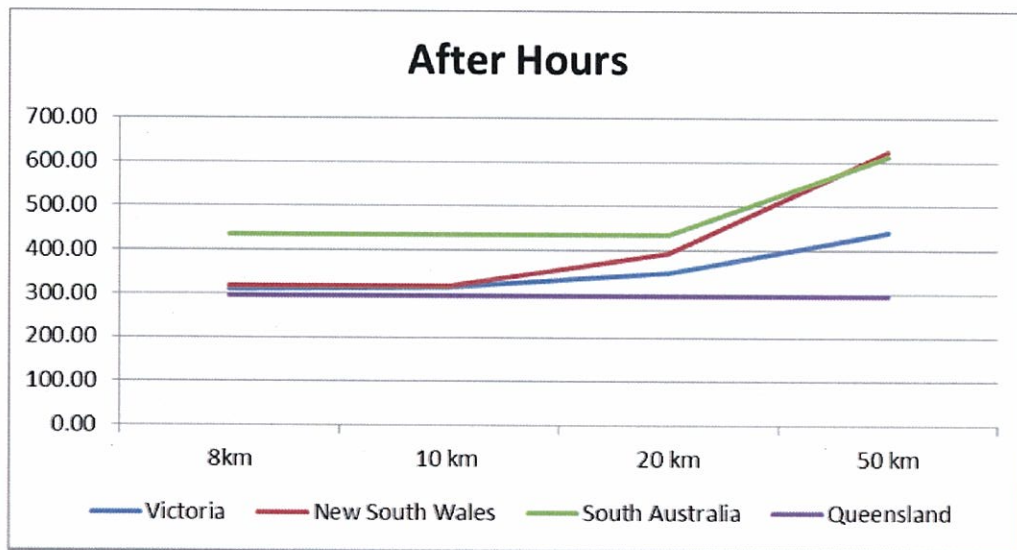


If we then consider the base fees including an adjustment for afterhours rates we note that when comparing Melbourne’s Base Fee to New South Wales, South Australia and Queensland, assuming a distance of 8 kilometres for comparative purposes:

- i. The New South Wales base fee is \$316.80 or 2% higher than Melbourne.
- ii. The South Australian base fee is \$435.00 or 41% higher than Melbourne.
- iii. The Queensland base fee is \$293.80 or 5% lower than Melbourne.

Graph 2 compares the after-hours base fee for each jurisdiction across distances of 8 km, 10 km, 20 km and 50 kilometres. As this graph highlights, both New South Wales and South Australia become progressively higher than Melbourne’s base after hours fee, while Queensland’s base after hours fee remains below the other States.

*Graph 2: Comparison of After Hours base fees*



It should be noted that any comparison with Queensland should be considered in the context that the Queensland base fee is constant up to 50 kilometres. Given the number and distribution of depots within the Controlled Area it is likely that the majority of accident towing in Melbourne would be significantly less than 50 kilometres.

#### 4. Price Comparison – Outside Melbourne Controlled Area

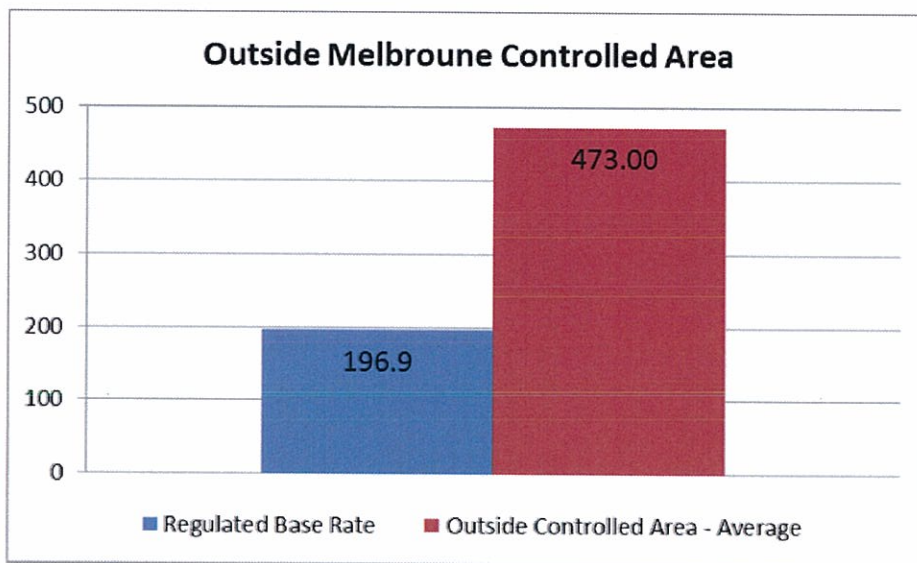
We have conducted an exercise that compares the Melbourne Base Fee to similar towing fees in Victoria that are outside the Melbourne Controlled area<sup>1</sup>.

Graph 3 highlights that on average the fee's charged to Insurance companies in a competitive market place for a similar towing operation to those within the Melbourne Controlled Area were 240% higher.

This would tend to indicate that the regulated fee in the Melbourne Controlled Area is below the market benchmark.

It is acknowledged that the level of demand, operational cost structures and levels of competition would be different in regions outside the Melbourne Controlled Area. However the level of differential is so significant that it is unlikely to be attributed to these factors alone.

*Graph 3: Base Fee Comparison – Outside Melbourne Controlled Area*



<sup>1</sup> A number of companies provided invoices that reflected a towing job provided to a range of Insurance Companies for towing services; the job was for a standard, within-hours tow that was for less than 8 kilometres.

## 5. Indexation Methodology Comparison

“The current annual fee adjustment formula uses the CPI (Melbourne, Transport) cost index to adjust prices”. A productivity factor of 0.5 is applied to the movement in the index to derive the adjustment factor.

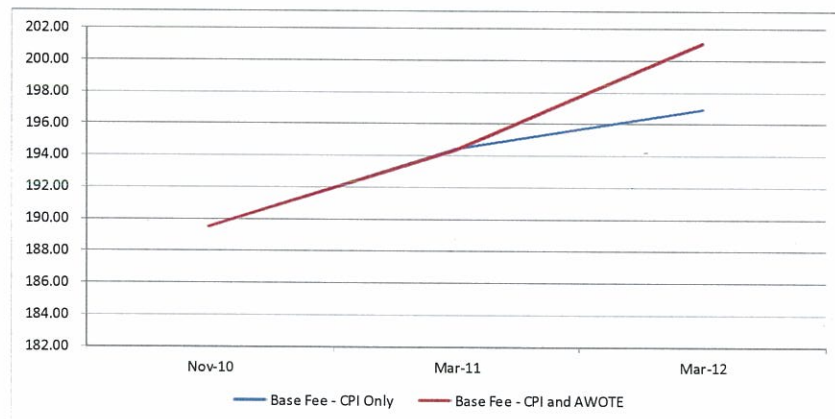
We noted in our last submission for the VACC<sup>2</sup> that there was merit in creating an index that would allow the fees to be adjusted to reflect a labour component such as the AWOTE Index<sup>3</sup>.

To determine whether a gap has occurred between the two indexation methodologies we compared the indexed Base Fee over the short term and a notional Base Fee indexed over the longer term. This is to identify any gap that may have occurred or may occur in the future as a result of decisions over indexation methodologies.

In comparing the movement of the Base Fee adjusted only by CPI versus an index that includes AWOTE we see that since the last review, the towing fees are 2.09% worse off as a result of the labour index outpacing CPI in the period from March 2011 through to March 2012.

**Graph 4: Base Rate Indexation over the short term: Cumulative 2.09%**

| Short Term Trend         | Nov-10 | Mar-11 | Mar-12 |
|--------------------------|--------|--------|--------|
| Base Fee - CPI Only      | 189.50 | 194.45 | 196.92 |
| Base Fee - CPI and AWOTE | 189.50 | 194.37 | 201.05 |



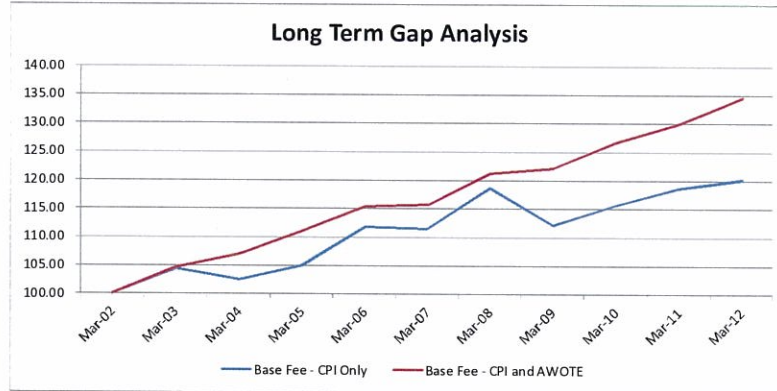
If we consider what the gap would have been over the previous ten years the cumulative impact would be that a Base Fee adjusted only by CPI would trail an index, that included a weighting to reflect labour, by 12.0%.

<sup>2</sup> Pitcher Partner Report: “VACC – Proposed Towing & Storage Fees”, comments on the Essential Services Commission Report entitled “Review of Accident Towing and Storage Fees: Draft Report, March 2010”.

<sup>3</sup> Table 11: Full Time Adult Ordinary Time Earnings; Victoria – Series Id: A2828148L

**Graph 5: Indexation Gap over the long term: Cumulative 12.0%**

| Long Term Trend          | Mar-02 | Mar-03 | Mar-04 | Mar-05 | Mar-06 | Mar-07 | Mar-08 | Mar-09 | Mar-10 | Mar-11 | Mar-12 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Base Fee - CPI Only      | 100.00 | 104.41 | 102.58 | 105.04 | 111.81 | 111.47 | 118.57 | 112.06 | 115.61 | 118.63 | 120.14 |
| Base Fee - CPI and AWOTE | 100.00 | 104.67 | 107.03 | 111.06 | 115.31 | 115.67 | 121.15 | 122.13 | 126.64 | 129.90 | 134.56 |



# Appendix Two

## PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

|  | 2012<br>\$        | 2011<br>\$        |
|--|-------------------|-------------------|
| <b>EXPENSES</b>                          |                   |                   |
| Accountancy Fees                         | 7,441.82          | 2,448.18          |
| Advertising & Promotion                  | 7,474.68          | 8,123.29          |
| Bank Charges                             | 3,440.63          | 2,588.30          |
| Computer Expenses                        | 252.73            | -                 |
| Contract Work                            | -                 | 379.71            |
| Debt Collection                          | -                 | 56.50             |
| Depreciation                             | 5,785.00          | 7,144.00          |
| Donations                                | 80.00             | -                 |
| Electricity & Gas                        | 3,575.78          | 4,405.34          |
| Filing Fees                              | 226.50            | 436.00            |
| Fines & Penalties                        | -                 | 265.45            |
| General Expenses                         | -                 | 437.09            |
| Hire Purchase Charges                    | 536.84            | 2,161.90          |
| Insurance                                | 3,182.29          | 9,002.28          |
| Interest Paid                            | 604.82            | 149.96            |
| Laundry & Dry Cleaning                   | 178.14            | 159.53            |
| Legal Costs                              | -                 | 4,545.45          |
| Licencing Fees                           | -                 | 4,190.00          |
| Motor Vehicle Expenses                   | 93,400.76         | 85,453.95         |
| Postage                                  | 460.50            | 440.91            |
| Printing, Postage & Stationery           | 3,952.09          | 2,859.37          |
| Rates & Taxes                            | 3,128.27          | 2,520.19          |
| Radio Rental                             | 8,270.96          | 7,019.80          |
| Rent                                     | 63,228.00         | 60,655.10         |
| Repairs & Maintenance                    | 984.90            | 190.68            |
| Staff Welfare                            | 1,224.34          | 1,121.76          |
| Storage & Towing Fees                    | 3,334.13          | 6,308.14          |
| Subscriptions                            | 968.20            | 1,028.00          |
| Superannuation Contributions - Employees | 12,931.96         | 17,111.47         |
| Superannuation Contributions - Directors | -                 | 1,244.00          |
| Telephone                                | 3,786.99          | 3,682.69          |
| Tool Replacement                         | -                 | 96.00             |
| Travelling Expenses                      | -                 | 18.18             |
| Wages                                    | 292,113.00        | 289,105.00        |
| Waste Disposal                           | 1,381.65          | 1,132.68          |
| Workcare                                 | 8,265.28          | 5,216.17          |
|  | <u>530,210.26</u> | <u>531,697.07</u> |

The accompanying notes form part of these financial statements.

**Appendix 3 was provided by the VACC on a confidential basis.**